CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2013

General Information

Legal form of entity	Local municipality
Municipal demarcation code	MP301
Executive Mayor	Shiba BP
Speaker	Nkosi SM
Chief Whip	Nkosi DP
Mayoral Committee	Mngomezulu MW
	Mnisi NM
	Thabethe QG
Councillors	Cindi NR
	Dludlu ZM
	Lubede EJ
	Maduna ME
	Makene J
	Makhubela NV
	Malaza STQ
	Masuku BM
	Mathunjwa KC (resigned 31 March 2013)
	Mbhele JS
	McGinn HJ
	Mdhluli NI
	Mdluli SL (deceased 31 May 2013)
	Mhlanga PP
	Mkhabela EB
	Mnisi N
	Motha TW
	Mthombeni SF
	Ngubeni A
	Nkabinde NJ
	Nkosi AD
	Nkosi FE
	Nkosi GJ
	Nkosi JS
	Nkosi MH
	Nkosi MJ
	Nkosi NM
	Nkosi SJ
	Nkosi SZ
	Nkosi VL
	Ntuli FJ
	Phakathi FDM
	Shabangu VS
	Sikhakhane JD
	Simelani JD
	Soko JP
	Steenkamp ML
	Thomo NG
	Vilakazi J
	Vilakazi RG
	Vilakazi VV

General Information

	Zwane TE Zulu TW
Grading of local authority	Grade 3 Medium capacity
Accounting Officer	Mpila VN
Chief Finance Officer (CFO)	Mphumuzi Nhlabathi
Registered office	28 Kerk Street Carolina Mpumalanga 1185
Business address	28 Kerk Street Carolina Mpumalanga 1185
Postal address	Private Bag X719 Carolina 1185
Bankers	Standard Bank of South Africa Limited
Auditors	Auditor General
Attorneys	Guzana Attorneys Macbeth Ncongwane Attorneys Ramathe MJ Attorneys TMN Kgomo Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously Common Management Information Protocol)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act nr 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The annual financial statements set out on pages 6 to 81, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2013 and were signed on its behalf by:

Accounting Officer
Mpila VN

Audit Committee Report

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	Restated 2012
Assets			
Current Assets			
Cash and cash equivalents	12	1 195 124	9 203 292
Receivables from exchange transactions	11	60 840 769	44 098 551
Receivables from non-exchange transactions	10	-	8 282
Inventories	9	1 715 111	130 684
Other financial assets	5	1 451 125	14 278 263
Operating lease asset	7	24 244	34 027
		65 226 373	**67 753 099**
Non-Current Assets			
Investment property	3	18 345 000	18 345 000
Property, plant and equipment	4	805 776 159	703 287 447
		824 121 159	**721 632 447**
Non-current assets held for sale and assets of disposal groups	13	2 738 000	2 797 300
Total Assets		**892 085 532**	**792 182 846**
Liabilities			
Current Liabilities			
Payables from exchange transactions	19	88 897 025	48 847 140
VAT payable	20	84 734	1 494 165
Finance lease obligation	15	267 600	256 848
Unspent conditional grants and receipts	16	1 385 824	4 118 566
Closure cost liability	17	5 767 173	8 946 178
		96 402 356	**63 662 897**
Non-Current Liabilities			
Finance lease obligation	15	384 084	625 428
Employee benefit obligation	8	10 988 000	10 606 168
Provisions	18	5 275 098	1 666 744
Long service award accrual	6	3 811 000	5 727 184
		20 458 182	**18 625 524**
Total Liabilities		**116 860 538**	**82 288 421**
Net Assets		**775 224 994**	**709 894 425**
Reserves			
Revaluation reserve	14	24 046 763	24 046 763
Accumulated surplus		751 178 231	685 847 662
Total net assets		**775 224 994**	**709 894 425**

Statement of Financial Performance

Figures in Rand	Note(s)	2013	Restated 2012
Revenue			
Donations	41	-	9 712 587
Fines	40	194 214	856 582
Interest received - investment	32	1 758 010	2 641 570
Interest received - consumers	31	5 555 175	26 109 719
Other Income	57	1 248 239	1 754 754
Government grants & subsidies	24	268 343 473	250 013 616
Licences and permits	39	822 678	949 066
Dividends received - investments	32	6 884	-
Property rates	22	31 161 334	25 396 402
Rental of facilities and equipment	38	424 276	439 865
Service charges	23	29 442 567	25 470 151
Total revenue		**338 956 850**	**343 344 312**
Expenditure			
Employee related cost	26	(95 987 050)	(83 713 701)
Remuneration of councillors	27	(12 602 909)	(11 401 609)
Capital expenditure	28	(9 546 131)	-
Depreciation	35	2 752 040	(92 657 697)
Rehabilitation cost		(647 042)	(4 473 089)
Finance costs	36	(1 161 027)	(256 301)
Debt impairment	29	(38 034 052)	(30 789 685)
Impairment of assets	33	(230 300)	-
Repairs and maintenance	30	(13 679 638)	(23 822 819)
Bulk purchases	43	(33 940 503)	(34 239 162)
Contracted services	42	(27 263 801)	(30 608 746)
General expenses	25	(68 434 134)	(75 727 203)
Total expenditure		**(298 774 547)**	**(387 690 012)**
Operating surplus (deficit)		**40 182 303**	**(44 345 700)**
Fair value adjustment	34	426 380	1 249 852
Surplus (deficit) for the year		**40 608 683**	**(43 095 848)**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2011	**6 234 263**	**728 943 510**	**735 177 773**
Changes in net assets			
Changes in revaluation surplus	17 812 500	-	17 812 500
Net surpluses (deficits) recognised directly in net assets	17 812 500	-	17 812 500
Deficit for the year	-	(43 095 848)	(43 095 848)
Total recognised income and expenses for the year	17 812 500	(43 095 848)	(25 283 348)
Total changes	17 812 500	(43 095 848)	(25 283 348)
Opening balance as previously reported	24 046 763	735 291 430	759 338 193
Adjustments			
Prior year adjustments - see note 48	-	(24 721 882)	(24 721 882)
Balance at 01 July 2012 as restated	**24 046 763**	**710 569 548**	**734 616 311**
Changes in net assets			
Surplus for the year	-	40 608 683	40 608 683
Total changes	-	40 608 683	40 608 683
Balance at 30 June 2013	**24 046 763**	**751 178 231**	**775 224 994**
Note(s)	14		

Cash Flow Statement

	Note(s)		Restated
Cash flows from operating activities			
Receipts			
Interest income		1 758 010	2 641 570
Dividends received		6 884	-
		1 764 894	2 641 570
Payments			
Finance costs		(785 507)	(176 623)
Net cash flows from operating activities	44	**1 134 959**	**60 943 549**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(16 880 408)	(82 208 725)
Proceeds from sale of property, plant and equipment	4	-	1 894 909
Proceeds from sale of financial assets		12 911 518	18 439 975
Net cash flows from investing activities		**(3 968 890)**	**(61 873 841)**
Cash flows from financing activities			
Movement in other liability 1		(4 568 125)	-
Finance lease payments		(606 112)	594 267
Net cash flows from financing activities		**(5 174 237)**	**594 267**
Cash and cash equivalents at the beginning of the year		9 203 292	9 539 317
Cash and cash equivalents at the end of the year	12	**1 195 124**	**9 203 292**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	32 026 000	(3 844 467)	**28 181 533**	29 442 567	**1 261 034**	**Note 53.1**
Rental of facilities and equipment	61 565	4 954	**66 519**	424 276	**357 757**	
Interest received (consumers)	12 780 897	(4 220 897)	**8 560 000**	5 555 175	**(3 004 825)**	**Note 53.2**
Licences and permits	1 759 981	(756 151)	**1 003 830**	822 678	**(181 152)**	**Note 53.3**
Administration and management fees received	-	-	**-**	1 248 239	**1 248 239**	
Interest received - investment	1 750 000	-	**1 750 000**	1 758 010	**8 010**	**Note 53.4**
Dividends received	-	-	**-**	6 884	**6 884**	
Total revenue from exchange transactions	**48 378 443**	**(8 816 561)**	**39 561 882**	**39 257 829**	**(304 053)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	31 179 590	-	**31 179 590**	31 161 334	**(18 256)**	**Note 53.5**
Government grants & subsidies	167 187 000	(3 608 000)	**163 579 000**	268 343 473	**104 764 473**	**Note 53.6**
Transfer revenue						
Fines	-	326 100	**326 100**	194 214	**(131 886)**	**Note 53.7**
Total revenue from non-exchange transactions	**198 366 590**	**(3 281 900)**	**195 084 690**	**299 699 021**	**104 614 331**	
Total revenue	**246 745 033**	**(12 098 461)**	**234 646 572**	**338 956 850**	**104 310 278**	
Expenditure						
Personnel	83 296 000	(3 599 524)	**79 696 476**	(95 987 050)	**(175 683 526)**	**Note 53.8**
Remuneration of councillors	13 229 765	-	**13 229 765**	(12 602 909)	**(25 832 674)**	**Note 53.9**
Administration	-	-	**-**	(9 546 131)	**(9 546 131)**	
Depreciation and amortisation	2 000 000	-	**2 000 000**	2 752 040	**752 040**	**Note 53.10**
Impairment loss / Reversal of impairments	15 362 878	-	**15 362 878**	(647 042)	**(16 009 920)**	
Finance costs	-	-	**-**	(1 161 027)	**(1 161 027)**	
Debt impairment	-	-	**-**	(38 034 052)	**(38 034 052)**	**Note 53.11**
Collection costs	-	-	**-**	(230 300)	**(230 300)**	
Repairs and maintenance	19 654 269	-	**19 654 269**	(13 679 638)	**(33 333 907)**	
Bulk purchases	17 159 000	9 631 159	**26 790 159**	(33 940 503)	**(60 730 662)**	**Note 53.12**
Contracted Services	11 702 812	9 531 423	**21 234 235**	(27 263 801)	**(48 498 036)**	**Note 53.13**
General expenses	84 340 041	(27 661 041)	**56 679 000**	(68 434 134)	**(125 113 134)**	
Total expenditure	**246 744 765**	**(12 097 983)**	**234 646 782**	**(298 774 547)**	**(533 421 329)**	
Operating surplus	**246 744 765**	**225 109 988**	**471 854 753**	**40 182 303**	**(431 672 450)**	
Fair value adjustments	-	-	**-**	426 380	**426 380**	
Surplus	**246 744 765**	**225 109 988**	**471 854 753**	**40 608 683**	**(431 246 070)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**246 744 765**	**225 109 988**	**471 854 753**	**40 608 683**	**(431 246 070)**	
Reconcilation						

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts or recoverable service amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply demand, together with economic factors such as inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 Provisions.

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows except where stated otherwise.

Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, the cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.2 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Accounting Policies

1.3 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except land which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus when the asset is derecognised.

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Bins and containers	10 years
Buildings	
• Elements	10 - 30 years
• Service connections	5 - 50 years
Infrastructure	
• Bridges	60 - 100 years
• Civil	15 - 200 years
• Earthworks	100 years
• Electrical	20 - 50 years
• Pavements	3 - 80 years
• Pipeworks	10 - 100 years
• Road drainage	20 - 50 years
• Road furniture	5 - 20 years
• Sewerage	20 - 50 years
Land	Indefinite
Motor vehicles	
• Ambulances	10 years
• Fire engines	20 years
• Heave duty	7 - 15 years
• Other	3 - 7 years
Office equipment	
• Air Conditioners	5 years
• Computer hardware	5 years
• Other	5 years
Plant and machinery	15 - 50 years

1.3 Property, plant and equipment (continued)

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Such difference is recognised in surplus or deficit when the item of property, plant and equipment is derecognised.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Accounting Policies

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange	At fair value through surplus and deficit
Receivables from non exchange	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset, other than those subsequently measured at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The municipality measures all other financial assets and financial liabilities initially at its fair value.

Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Accounting Policies

1.5 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Accounting Policies

1.6 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Accounting Policies

1.7 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

Accounting Policies

1.11 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an finance cost.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probably that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another party without directly giving approximately equal value in exchange, or gives value to another party without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the municipality.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Accounting Policies

1.15 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Budget information

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The annual financial statements and the budget are not on the same basis of accounting. The actual financial statement information is therefore presented on a comparable basis to the budget information. The comparison and the reconcilation between the statement of financial performance and the budget for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.21 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management is those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.21 Related parties (continued)

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.22 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when the municipality receives value from another party without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, the municipality shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where the municipality prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the ‘Statement of Comparison of Budget and Actual Amounts’. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 103: Heritage Assets

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgement in applying the initial recognition criteria to the specific circumstances surrounding the municipality and the assets.

Where the municipality holds a heritage asset, but on initial recognitian criteria to the specific circumstances surrounding the municipality and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, the municipality has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the municipality from determining the fair value.

GRAP 103 states that a heritage asset should not be depreciated, but the municipality should assess at each reporting date whether there is an indication that it may be impaired.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The municipality should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The municipality treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 21: Impairment of Non-cash-generating Assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of Cash-generating Assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, the municipality considers the substance of the contract and not just the legal form.

Financial assets and financial liabilities are initially recognised at fair value. Where the municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Concessionary loans are loans either received by or granted to another entity on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. The municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, the municipality can however designate such an instrument to be measured at fair value.

The municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once the municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

The municipality derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, the municipality has transferred control of the asset to another entity.

The municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where the municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

The municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for the municipality’s statement of financial position and statement of financial performance, as well as the nature and extent of the risks that the municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is set out in note Changes in accounting policy.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 1 (as revised 2012): Presentation of Financial Statements

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 7 (as revised 2012): Investments in Associates

Amendments were made to definitions. A requirement to include transaction costs on initial recognition of an investment in an associate under the equity method, has been included in the Standard of GRAP Investments in Associates

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Amendments were made to the scope and definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Amendments were made to measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Amendments were made to disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to the Standard of GRAP on Investment Property (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to the Standard of GRAP on Property, Plant and Equipment (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle, has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)

This Standard of GRAP replaces the previous Standard of GRAP on Agriculture (GRAP 101) due to the International Public Sector Accounting Standards Board (IPSASB) that has issued an IPSAS on Agriculture (IPSAS 27).

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has early adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

This Standard of GRAP replaces the previous Standard of GRAP on Intangible Assets (GRAP 102) due to the IPSASB that has issued an IPSAS on Intangible Assets (IPSAS 31).

Changes made comprise three areas that can be summarised as follows:

- consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31;
- the deletion of guidance and examples from interpretations issued by the International Accounting Standards Board (IASB) previously included in GRAP 102; and
- changes to ensure consistency between the Standards of GRAP, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has early adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 16: Intangible Assets - Website Costs

The interpretation deals with the treatment of the municipality's own website. It concludes that the municipality’s own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, the municipality can satisfy the requirements in paragraph .54 in the Standard of GRAP on Intangible Assets, which in particular requires the municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If the municipality is not able to demonstrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality has early adopted the interpretation for the first time in the 2013 annual financial statements.

The impact of the interpretation is not material.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2013 or later periods:

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
  - all short-term employee benefits;
  - short-term compensated absences;
  - bonus, incentive and performance related payments;
- post-employment benefits: Defined contribution plans;
- other long-term employee benefits; and
- termination benefits.

The major difference between this this standard (GRAP 25) and IAS 19 is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of functions between entities under common control

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between entities under common control.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and/or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between entities not under common control.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomed effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, no acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that the reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard states that a related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence.

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2013 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 1 (as revised 2012): Applying the Probability Test on Initial Recognition of Revenue

This interpretation of the Standards of GRAP now addresses the manner in which the municipality applies the probability test on initial recognition of both:

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions; and

(b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This interpretation supersedes the interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality expects to adopt the interpretation for the first time in the 2014 annual financial statements.

The impact of this interpretation is currently being assessed.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

3. Investment property

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	18 345 000	-	18 345 000	18 345 000	-	18 345 000

Reconciliation of investment property - 2013

	Opening balance	**Total**
Investment property	18 345 000	18 345 000

Reconciliation of investment property - 2012

	Opening balance	**Transfers**	**Fair value adjustments**	**Total**
Investment property	12 023 600	5 180 000	1 141 400	18 345 000

Pledged as security

At year end no assets have been pledged as security.

Details of property

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2012. The first supplementary was implemented on 1 May 2013. Interim valuations are processed on an quaterly basis to take into account changes in individual property values due to alterations. The valuation were performed by an independent valuer, Sechele Property Developers and Valuers are not connected to the municipality.

The valuation was based on open market value for existing use.

Amounts recognised in surplus and deficit for the year.

	2013	2012
Rental revenue from investment property	424 276	439 865

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	54 546 536	-	54 546 536	57 589 700	-	57 589 700
Buildings	17 149 909	(1 844 026)	15 305 883	17 149 909	(1 608 531)	15 541 378
Infrastructure	950 792 878	(362 384 478)	588 408 400	918 683 718	(362 384 478)	556 299 240
Community	24 283 234	(2 481 172)	21 802 062	23 472 490	(2 481 172)	20 991 318
Infrastructure work in progress	102 408 245	-	102 408 245	46 441 186	-	46 441 186
Landfill site	12 966 262	(470 991)	12 495 271	6 879 933	(470 990)	6 408 943
Other property, plant and equipment	8 099 344	2 710 418	10 809 762	1 064 666	(1 048 984)	15 682
Total	**1 170 246 408**	**(364 470 249)**	**805 776 159**	**1 071 281 602**	**(367 994 155)**	**703 287 447**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Difference	**Additions**	**Depreciation**	**Carrying Value**
Land	57 589 700	**(3 043 164)**	-	-	54 546 536
Buildings	15 541 378	**(235 495)**	-	-	15 305 883
Infrastructure	556 299 240	**29 357 120**	-	2 752 040	588 408 400
Community	20 991 318	**810 744**	-	-	21 802 062
Infrastructure work in progress	46 441 186	**55 967 059**	-	-	102 408 245
Landfill site	6 408 943	**-**	6 086 328	-	12 495 271
Other property, plant and equipment	15 682	**-**	10 794 080	-	10 809 762
	703 287 447	**82 856 264**	**16 880 408**	**2 752 040**	**805 776 159**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Carrying Value
Land	47 930 980	-	(176 480)	(5 180 000)	15 015 200	-	57 589 700
Buildings	14 266 346	1 857 970	-	-	-	(582 938)	15 541 378
Infrastructure	591 396 191	11 693 244	-	43 843 333	-	(90 633 528)	556 299 240
Community	21 611 611	-	-	-	-	(620 293)	20 991 318
Infrastructure work in progress	26 571 463	63 713 056	-	(43 843 333)	-	-	46 441 186
Landfill site	2 109 480	4 944 455	-	-	-	(644 992)	6 408 943
Other property, plant and equipment	1 910 057	-	(1 718 429)	-	-	(175 946)	15 682
	705 796 128	**82 208 725**	**(1 894 909)**	**(5 180 000)**	**15 015 200**	**(92 657 697)**	**703 287 447**

Pledged as security

At year-end no assets have been pledged as security.

Assets subject to finance lease (Net carrying amount)

Finance lease assets included in other property, plant and equipment	532 148	860 829

2013	Opening balance	Depreciation	Carrying value
Finance lease assets	860 829	(328 681)	532 148

2012	Opening balance	Additions	Depreciation	Column heading	Carrying value
Finance lease assets	160 838	866 484	(166 493)	-	860 829

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations of land was 30 June 2012. Revaluations were performed by independent valuer, Valuers Arica (Pty) Ltd. Valuers Africa (Pty) Ltd are not connected to the municipality.

These assumptions were based on current market conditions.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Other financial assets

	2013	2012
Unlisted investments designated at amortised cost		
Investec call - Account number 482680 End date: 12/10/2012	-	-
ABSA call - Account number 20-7259-4461 End date: 12/10/2012	-	-
Stanlib money market account - Account number IP0006247 End date: 10/09/2012	-	1 525 225
	-	**1 525 225**
Listed investments designated at fair value		
Listed shares	609 132	473 402
Unlisted investments designated at fair value		
RMB Momentum - Account number RU 500434741 End date indefinite	179 679	2 083 436
Sanlam: Guarantee Capital Fund - Policy number 9921774X7 End date: cover at death	72 669	1 970 056
Stanlib classic investment plan - Account number IP0006247 End date: Indefinate	448 349	8 189 070
Standard bank money market call account - Account number 038478668002 End date indefinite	19 026	37 074
Standard bank call account - Account number 308654552 End date: Indefinite	122 270	-
	589 645	8 226 144

	2013	2012
Current assets		
Designated at fair value	-	1 525 225
Residual interest at cost	609 132	473 402
Designated at amortised cost	841 993	12 279 636
	1 451 125	**14 278 263**

Notes to the Annual Financial Statements

Fair value information

The following classes of financial assets are carried at fair value:
- Listed shares

The municipality owns 13,242 shares in Sanlam Limited which was trading at 46,00c (2012: 35,75c) per share at each reporting period.

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

The municipality has not reclassified any financial asset from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Credit qualtiy of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

6. Long service award liability

Long service award arrangements

As per government gazette an employee shall qualify long service reward in terms of leave days credits for the various periods of continuous service completed at the same employer as follows:
All new pensioners will receive a 60% subsidy subject to the maximum of R3,557.65 (R3,440 in 2012)

- After 10 years of service - 10 working days
- After 15 years of service - 20 working days
- After 20 years of service - 30 working days
- After 25 years of service - 30 working days
- After 30 years of service - 30 working days
- After 35 years of service - 30 working days
- After 40 years of service - 30 working days
- After 45 years of service - 30 working days

The leave mentioned may be wholly or partially converted on the date on which employee qualified or at any stage thereafter.

Long service benefits are awarded in the form of a number of leave days awarded once the employee completes a certain number of years in service.

Valuation of assets
The long service leave award liability of the municipality is unfunded. No dedicated assets had been set aside to meet this liability.

Valuation of assets	**2013**	**2012**
Carrying value		
Present value	3 811 000	2 972 000

Changes in the present value	**2013**	**2012**
Opening balance	2 972 000	2 223 000
Current service cost	372 000	290 000
Interest cost	245 000	197 000
Benefits paid	(122 908)	(121 000)
Actuarial loss/(gain)	344 908	383 000
	3 811 000	**2 972 000**

Net expense recognised in the statement of financial performance	**2013**	**2012**
Current service cost	372 000	290 000
Interest cost	245 000	197 000
Actuarial loss/(gain)	344 908	383 000
	961 908	**870 000**

Key assumptions	**2013**	**2012**
Discount rate	7.40 %	7.92 %
Consumer price inflation	5.66 %	5.74 %
Salary increase rate	6.66 %	6.74 %
Net effective discount rate	0.69 %	1.11 %

The effect of 1% p.a. change in the normal salary inflation assuption as follow:	**One percentage point increase**	**Current valuation percentage**	**One percentage point decrease**
Total accrued liability	4 162 000	3 811 000	3 502 000
Current service cost	564 000	503 000	450 000
Interest cost	320 000	292 000	267 000

Figures in Rand	2013	2012

6. Long service award liability (continued)

	5 046 000	**4 606 000**	**4 219 000**

The cost of the long service awards is dependant on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.

The interest cost is based on the discount rate assumption for the current valuation which is based on one point on the curve.

The amounts for the current annual reporting period and previous reporting period:	**30 June 2013**	**30 June 2012**
Present value of obligation	3 811 000	2 972 000

7. Operating lease asset

Operating lease asset	**2013**	**2012**
Straight lining of operating lease revenue	24 244	34 027

Operating lease asset represent rentals receivable by the municipality for premises/properties rented out. The lease was negotiated for periods ranging from 36 months to 119 months. The rentals escalate on average between 5% and 10% per annum.

8. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

Medical Scheme Arrangements
The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member’s death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution Rate Structure
Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Arrangements
There are no current subsidy policy used. Therefore the guidelines as set by the South African Local Government Association (SALGA) in Resolution 8 (post-retirement Medical Aid Subsidies) were applied for valuation purposes

The municipality has agreed to subsidise the medical aid contributions of retired members in the following way:
- All new pensioners will receive a 60% subsidy subject to the maximum of R3,557.65 for the 2013 (R3,440 in 2012)
- continuation members that were retired prior to the introduction of the current policy will continue to receive a 70% subsidy.
- The maximum subsidy is expected to increase at 75% of inflation.

However, pensioners that are currently receiving a PRMA benefit do not match the SALGA policy in terms of the subsidy percentage. Therefore, it was decided that the current pensioners will be valued based on the actual subsidy that they are currently receiving, which is either a 70% or 100% subsidy of their total monthly medical aid contribution, based on the data provided. In addition, the subsidy payable is not limited to a maximum for pensioners.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(10 988 000)	(10 606 168)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	10 606 168	10 580 607
Service cost	51 841	48 944
Interest cost	558 745	607 465
Benefits paid	(644 108)	(630 848)
Actuarial Loss/(Gain)	415 354	-
	10 988 000	**10 606 168**

Net expense recognised in the statement of financial performance

Current service cost	51 841	48 944
Interest cost	558 745	607 465
Actuarial (gains) losses	415 354	-
	1 025 940	**656 409**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Real discount rate	7.89 %	1.00 %
Consumer price inflation	6.14 %	2.50 %
Expected increase in salaries	- %	3.50 %
Maximum subsidy increase rate	0.70 %	- %
Medical aid contribution inflation	7.14 %	- %

In the 2012 financial year the actuaries used the Zero Coupon bond yield curve in order to determine the discount rate at each duration. Currently one point on the curve for comparison purposes was used.

Discount Rate
IAS 19 defines the determination of the Discount rate assumption to be used as the rate that can be determined by reference to market yields at the financial position date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at financial position date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.

The discount rate was therefore set as the yield of the R186 South African government bond as the valuation date. In the event that the valuation is performed prior to the effective valuation date. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. The actual yield on the R186 bond was sourced from the RMB Global Markets website on the 28th of June 2013.

Medical Aid Inflation
The medical aid inflation rate was reference to the past relationship between CPI and medical aid contribution rate inflation. We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationhip between current conventional bond yields (R186) and current index-linked yields (R197).

South Africa has experienced high health care cost inflation in recent years. The annaulised compound rates of increase for the last ten years show that registered medical schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not think that these increases are sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1%.

A single assumption for the investment return assumption is not shown as the entire South African zero-coupon yield curve as at 30 June 2012 was used.

Average Retirement Age
The average retirement age for all active employees was assumed to be 64 years. This assumption implicity allows for ill-health and early retirements.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Employee benefit obligations (continued)

Other assumptions

The increase of 1% p.a. change in the normal salary inflation assuption is as follow:	**One percentage point increase**	**Current valuation percentage**	**One percentage point decrease**
Defined benefit obligation	12 161 000	3 811 000	9 971 000
Service cost	935 000	503 000	762 000
Interest cost	45 000	292 000	36 000
	13 141 000	**4 606 000**	**10 769 000**

The service cost in the above table represents the increase in the liability due to the additional years of service accrued by the active members. For the base cost, where the assumption is made that the "gap" ("real discount rate") was 1 %, it is projected that service cost of R51 841 will be incurred. It should be noted that pensioners are not included in this figure since they do not accrue any extra years of service.

The interest cost is based on the discount rate assumption for the current valuation which is based on one point on the curve.

The amounts for the current annual reporting period and previous two reporting periods:

	2013	**2012**	**2011**	**2010**
Present value of the obligation	10 988 000	10 606 168	10 580 607	10 453 850

9. Inventories

	2013	2012
Consumables	1 620 846	65 083
Water	94 265	65 601
	1 715 111	**130 684**

At year-end no assets have been pledged as security.

10. Receivables from non-exchange transactions

	2013	2012
Staff debtors	-	8 282

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The municipality does not hold any collateral as security.

11. Trade receivables

Gross balances	2013	2012
Electricity	14 937 728	12 962 617
Other	14 832 798	14 491 275
Rates	186 838 585	150 520 866
Refuse	34 070 959	29 088 392
Sewerage	35 077 442	30 141 976
Water	7 759 038	5 171 597
Receivables with credit balances	-	-
	293 516 550	**242 376 723**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

11. Trade receivables (continued)

Less: Allowance for impairment		
Electricity	(11 841 403)	(10 453 905)
Other	(11 758 222)	(11 370 874)
Rates	(148 110 264)	(124 515 424)
Refuse	(27 008 654)	(23 458 787)
Sewerage	(27 806 511)	(24 308 467)
Water	(6 150 727)	(4 170 715)
	(232 675 781)	**(198 278 172)**

Net balance		
Electricity	3 096 325	2 508 712
Other	3 074 576	3 120 401
Rates	38 728 321	26 005 442
Refuse	7 062 305	5 629 605
Sewerage	7 270 931	5 833 509
Water	1 608 311	1 000 882
	60 840 769	**44 098 551**

Rates		
Current (0 -30 days)	6 188 323	2 545 065
31 - 60 days	3 023 367	2 474 533
61 - 90 days	3 009 699	2 529 253
> 90 days	174 617 197	145 549 591
Less: Allowance for impairment	(148 110 264)	(127 093 000)
	38 728 322	**26 005 442**

Electricity		
Current (0 -30 days)	743 256	428 510
31 - 60 days	255 394	449 311
61 - 90 days	228 858	648 438
> 90 days	13 716 315	11 436 358
Less: Allowance for impairment	(11 841 402)	(10 453 905)
	3 102 421	**2 508 712**

Water		
Current (0 -30 days)	1 686 536	70 337
31 - 60 days	162 976	58 219
61 - 90 days	169 479	175 196
> 90 days	5 739 131	4 867 845
Less: Allowance for impairment	(6 150 727)	(4 170 715)
	1 607 395	**1 000 882**

Sewerage		
Current (0 -30 days)	716 117	470 522
31 - 60 days	488 359	459 499
61 - 90 days	471 440	448 824
> 90 days	33 396 547	28 763 131
Less: Allowance for impairment	(27 806 511)	(24 308 467)
	7 265 952	**5 833 509**

Figures in Rand	2013	2012

11. Trade receivables (continued)

Refuse		
Current (0 -30 days)	508 189	457 455
31 - 60 days	460 506	447 460
61 - 90 days	451 287	439 433
> 90 days	32 650 976	27 744 044
Less: Allowance for impairment	(27 008 654)	(23 458 787)
	7 062 304	**5 629 605**

Other		
Current (0 -30 days)	879 933	71 458
31 - 60 days	74 137	70 829
61 - 90 days	72 975	134 784
> 90 days	13 763 084	14 214 204
Less: Allowance for impairment	(11 758 223)	(11 370 874)
	3 031 906	**3 120 401**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

11. Trade receivables (continued)

Summary of receivables by customer classification

Consumers		
Current (0 -30 days)	5 572 299	3 138 791
31 - 60 days	2 361 561	3 078 987
61 - 90 days	2 331 195	3 378 934
> 90 days	178 262 878	211 635 085
Allowance for doubtful debt	-	-
	188 527 933	221 231 797
Less: Allowance for impairment	(153 416 909)	(176 578 961)
	35 111 024	**44 652 836**
Industrial/ commercial		
Current (0 -30 days)	2 715 782	2 238 633
31 - 60 days	1 863 248	687 751
61 - 90 days	1 843 326	1 843 326
91 - 120 days	90 975 717	18 462 386
	97 398 073	23 232 096
Less: Allowance for impairment	(79 258 872)	(18 542 991)
	18 139 201	**4 689 105**
National and provincial government		
Current (0 -30 days)	2 434 332	213 807
31 - 60 days	239 929	193 112
61 - 90 days	233 788	163 366
91 - 120 days	4 644 655	3 384 071
	7 552 704	3 954 356
Less: Allowance for impairment	(4 469 188)	(3 156 219)
	3 083 516	**798 137**
Total		
Current (0 -30 days)	5 182 929	5 591 230
31 - 60 days	4 464 739	3 959 850
61 - 90 days	4 408 309	5 385 626
> 90 days	273 883 250	233 481 542
	287 939 227	248 418 248
Less: Allowance for impairment	(227 098 458)	(204 319 697)
	60 840 769	**44 098 551**
Less: Allowance for impairment		
31 - 60 days	(232 675 783)	(198 278 172)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(198 278 172)	(169 014 885)
Contributions to allowance	(34 397 611)	(29 263 287)
	(232 675 783)	**(198 278 172)**

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the prior year.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

11. Trade receivables (continued)

Fair value of consumer receivables

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The municipality does not hold any collateral as security.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	2013	2012
Cash on hand	1 117	1 117
Bank balances	1 194 007	9 202 175
	1 195 124	**9 203 292**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
Standard Bank - Current account - 033255954	1 215 545	2 568 446	12 992 970	(33 826 388)	9 202 175	9 537 916

13. Non-current assets held for sale

Assets and liabilities

Non-current assets held for sale		
Property, plant and equipment	2 738 000	2 797 300

The municipality decided to dispose of some stands. At year end these disposals were not completed.

The disposal are expected to be completed by 2014/06/30.

14. Revaluation reserve

The effective date of the revaluations was 30 June 2012. Revaluations were performed by independant valuer, Valuers Africa (Pty) Ltd. Valuers Africa (Pty) Ltd are not connected to the municipality.

The assumptions were based on current market conditions.

A register containing the information required by section 63 of the Municipal finance management act is available for inspection at the registered office of the municipality..

	2013	2012
Opening balance	24 046 763	6 234 263
Change during the year	-	17 812 500
	24 046 763	**24 046 763**

Revaluation surplus relating to property, plant and equipment

	2013	2012
Revaluation surplus beginning of period	24 046 763	6 234 263
Movements in the reserve for the year	-	17 812 500
	24 046 763	**24 046 763**

Figures in Rand	2013	2012

15. Finance lease obligation

Minimum lease payments due		
- within one year	571 316	633 116
- in second to fifth year inclusive	481 200	1 030 786
- later than five years	59 758	81 488
	1 112 274	1 745 390
less: future finance charges	(460 590)	(863 114)
Present value of minimum lease payments	**651 684**	**882 276**
Present value of minimum lease payments due		
- within one year	267 600	256 848
- in second to fifth year inclusive	335 044	589 110
- later than five years	49 040	36 318
	651 684	**882 276**
Non-current liabilities	384 084	625 428
Current liabilities	267 600	256 848
	651 684	**882 276**

The average lease term is 3 years and the average effective borrowing rate is 9%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Accelerated community infrastructure programme	-	2 808 477
Department of Arts and Culture	199 666	199 666
Development bank of south africa	-	173 157
Department of Energy	568 835	-
Department of Local Government	228 831	228 832
Department of Water Affairs	354 473	-
Department of Water Affairs and Forestry Affairs	34 019	-
Finance management grant	-	708 434
	1 385 824	**4 118 566**

Movement during the year

Balance at the beginning of the year	4 118 566	24 413 047
Additions during the year	106 500 731	79 600 537
Income recognition during the year	(109 233 473)	(99 895 018)
	1 385 824	**4 118 566**

See note 24 for reconciliation of grants from National / Provincial Government.

17. Closure cost liability

Badplaas	2 959 055	5 610 996
Carolina	1 140 621	1 804 528
Mpuluzi	1 667 497	1 530 654
	5 767 173	**8 946 178**

18. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision for rehabilitation	1 666 744	3 608 354	5 275 098

Reconciliation of provisions - 2012

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	-	1 666 744	-	1 666 744
Performance bonus	383 374	-	(383 374)	-
	383 374	**1 666 744**	**(383 374)**	**1 666 744**

Provision for rehabilitation:

The municipality engages in waste disposal operations from residential and business areas within the following areas:

- Mpuluzi dumpsite
- Carolina landfill/dump site
- Ekulindeni disposal site
- Badplaas dumpsite
- Ekukwatini landfill siteIt is required from the entity to execute an environmental management program to restore the landfill sites after its useful life.

The expected cash flows will be over the next 30 years entailing three components

- Pre closure costs
- Rehabilitation and closure costs
- Post-closure monitoring and maintenance costs (aftercare)

Restructuring provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

19. Payables from exchange transactions

	2013	2012
1 % social responsibility	2 331 098	1 053 100
Accrual - leave pay	7 031 896	5 871 420
Accrual - thirteenth cheque	2 127 233	1 392 516
Consumer deposits	570 295	592 667
Retentions	15 400 394	12 800 360
Suspense accounts	191 906	342 447
Trade Payables	60 808 784	26 389 789
Unallocated deposits	435 419	404 841
	88 897 025	**48 847 140**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

20. VAT payable

VAT refunds receivable	84 734	1 494 165

21. Revenue

Donations	-	9 712 587
Fines	194 214	856 582
Government grants & subsidies	268 343 473	250 013 616
Interest received	5 555 175	26 109 719
Interest received - investment	1 758 010	2 641 570
Administration and management fees received	1 248 239	1 754 754
Licences and permits	822 678	949 066
Dividends received	6 884	-
Property rates	31 161 334	25 396 402
Rental of facilities and equipment	424 276	439 865
Service charges	29 442 567	25 470 151
	338 956 850	**343 344 312**

The amount included in revenue arising from exchange of goods or services are as follows:		
Interest received - investment	1 758 010	2 641 570
Interest received	5 555 175	26 109 719
Licences and permits	822 678	949 066
Administration and management fees received	1 248 239	1 754 754
Rental of facilities and equipment	424 276	439 865
Service charges	29 442 567	25 470 151
Dividends received	6 884	-
	39 257 829	**57 365 125**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	31 161 334	25 396 402
Transfer revenue		
Government grant and subsidies	268 343 473	250 013 616
Donations	-	9 712 587
Fines	194 214	856 582
	299 699 021	**285 979 187**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

22. Property rates

Rates received

Residential	33 238 745	29 614 973
Commercial	3 496	1 192
Less: Income forgone	(2 080 907)	(4 219 763)
	31 161 334	**25 396 402**

Valuations

Residential	729 418 800	371 701 800
Commercial	115 055 500	143 740 100
State	143 476 400	182 612 900
Municipal	8 251 370	4 437 200
Agriculture	1 293 547 500	1 152 896 200
Other	285 015 900	406 330 400
	2 574 765 470	**2 261 718 600**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2012. The first supplementary was implemented on 1 May 2013. Interim valuations are processed on an quaterly basis to take into account changes in individual property values due to alterations. The valuation were performed by an independent valuer, Sechele property developers and Valuers are not connected to the municipality.

The new general valuation will be implemented on 01 July 2016.

23. Service charges

Sale of electricity	17 076 703	15 930 860
Sale of water	2 892 026	788 684
Sewerage and sanitation charges	5 257 546	4 680 937
Refuse removal	4 216 292	4 069 670
	29 442 567	**25 470 151**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

24. Government grants and subsidies

Department of Water and Forestry Affairs	7 790 527	7 071 000
Equitable share	159 110 000	140 273 121
Accelerated community infrastructure programme	2 808 477	-
Development bank of South Africa	173 157	318 639
Department of Energy	15 631 165	-
Department of human settlements	-	-
Department of Water and Forestry Affairs	-	4 737 814
Expanded public works program	1 351 981	877 000
Municipal infrastructure Grant	77 236 001	92 957 869
Financial management grant	1 958 434	2 764 292
Municipal systems improvement grant	860 000	1 013 881
Department of Human Settlements	1 423 731	-
	268 343 473	**250 013 616**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Financial management grant

Balance unspent at beginning of year	708 434	2 222 726
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 958 434)	(2 764 292)
	-	**708 434**

The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Municipal infrastructure grant

Balance unspent at beginning of year	-	18 154 901
Current-year receipts	77 236 000	74 836 968
Conditions met - transferred to revenue	(77 236 000)	(92 991 869)
	-	**-**

The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Municipal systems improvement grant

Balance unspent at beginning of year	-	223 881
Current-year receipts	860 000	790 000
Conditions met - transferred to revenue	(860 000)	(1 013 881)
	-	**-**

The grant intended to assist the Municipality in building in house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal system Act and related legislation, policies and local government turnaround strategy.

Department of local government and traditional affairs

Balance unspent at beginning of year	228 832	228 832

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

24. Government grants and subsidies (continued)

The grant is intended for the construction of the ring in Silobela which is funded by the department of local government and housing.

Department of Water and Forestry Affairs

Balance unspent at beginning of year	-	3 383 041
Current-year receipts	8 145 000	1 354 773
Conditions met - transferred to revenue	(7 790 527)	(4 737 814)
	354 473	**-**

The grant is intended to fund bulk, connector and internal infrastructure of water services at a basic level of service.

Development bank of South Africa

Balance unspent at beginning of year	173 157	-
Current-year receipts	-	491 796
Conditions met - transferred to revenue	(173 157)	(318 639)
	-	**173 157**

The grant is intended to co-fund the land use management system.

Accelerated community infrastructure programme

Balance unspent at beginning of year	2 808 477	-
Current-year receipts	(2 808 477)	2 808 477
	-	**2 808 477**

The grant is intended to fund the development of the package plant and AC pipes for Silobela.

Department of arts and culture

Balance unspent at beginning of year	199 666	199 666

The grant is intended to improve the social economic situation.

Conditions to be met include implementating improvements on library equipment.

Conditions still to be met - remain liabilities (see note 16).

Expanded public works program

Current-year receipts	1 386 000	877 000
Conditions met - transferred to revenue	(1 351 981)	(877 000)
	34 019	**-**

The grant was used for the creation of employment.

Conditions still to be met - remain liabilities (see note 16).

Department of Energy

Current-year receipts	16 200 000	-
Conditions met - transferred to revenue	(15 631 165)	-
	568 835	**-**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

24. Government grants and subsidies (continued)

The grant is intended to fund energy efficient lighting technologies in municipal building, street and traffic lighting infrastructure.

Conditions still to be met - remain liabilities (see note 16).

Department of Human Settlements

Current-year receipts	1 423 731	-
Conditions met - transferred to revenue	(1 423 731)	-
	-	**-**

The grant is intended to fund the project of upgrading and refurbishing of existing water treatment plant at Eesterhoek.

25. General expenses

Audit committee fees	604 201	355 373
Advertising	542 922	673 676
External audit fees	3 411 659	2 416 538
Bank charges	435 562	487 700
Cleaning	377	-
Commission paid	3 886 956	-
Legal expenses	1 839 542	3 774 573
Consumables	194 878	352 296
Stock adjustment: Water	(28 664)	210 335
Entertainment	1 450 490	615 652
Insurance	964 497	2 117 214
Lease rentals on operating lease	1 161 582	1 027 645
Magazines, books and periodicals	682 807	200 369
Motor vehicle expenses	8 888 882	6 818 843
Fuel and oil	159 831	48 588
Postage and courier	1 420 172	1 448 702
Printing and stationery	1 036 139	797 219
Capacity building	1 836 487	270 057
License fees	846 301	879 686
Staff welfare	66 570	-
Subscriptions and publications	543 295	534 203
Telephone and fax	2 428 482	1 450 047
Transport and freight	5 113 166	4 063 418
Training	1 100 789	645 025
Title deed search fees	1 958 434	2 789 651
VIP toilets not capitalised	(27 698)	24 290 068
Uniforms and overalls	751 351	510 650
Expense 2	813 147	1 195 027
Grant expenditure	3 000	1 500
Chemicals	5 003 633	3 185 250
Convention bureau	1 338 774	1 041 882
Hostel charges	1 140 964	996 848
Other expenses	18 218 564	8 056 079
Restructuring	647 042	4 473 089
	68 434 134	**75 727 203**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

26. Employee related costs

Acting allowances	1 862 672	1 483 164
Actuarial loss/(gain)	760 262	766 000
Bargaining council	28 489	15 150
Basic	58 075 005	49 216 270
Bonus	4 721 196	3 759 158
Interest	803 745	1 581 465
Housing benefits and allowances	670 912	716 581
Leave pay accrual	1 856 084	3 697 508
Medical aid	4 013 897	3 424 826
Overtime payments	4 864 121	4 127 000
Pension Fund	10 647 842	9 098 813
Provident fund	107 304	51 735
SDL	780 799	634 580
Service Cost	423 841	48 944
Standby allowances	1 279 934	854 833
Telephone allowances	51 121	5 200
Travel allowances	4 496 148	3 850 189
UIF	543 678	382 285
	95 987 050	**83 713 701**

Remuneration of Municipal Manager: Mpila VN

Annual Remuneration	736 380	647 904
Car Allowance	89 054	66 791
Contributions to UIF, Medical and Pension Funds	212 877	159 949
	1 038 311	**874 644**

Remuneration of Chief Finance Officer: Mphumuzi Nhlabathi

Annual Remuneration	430 555	-
Allowances	194 278	-
Contributions to UIF, Medical and Pension Funds	91 742	-
	716 575	**-**

Remuneration for 2013 represent amounts received for filling the position of deputy Chief Finance Officer from 1 July 2013 to 31 May 2013. The Chief Finance Officer acted for 4 months from February 2013 to May 2013 before being appointed as Chief Finance Officer in June 2013. A leave pay out of R162 935,46 was made during the year

Remuneration of Director: Technical services: GM Matlala

Annual Remuneration	57 130	488 546
Allowances	5 580	120 000
Contributions to UIF, Medical and Pension Funds	862 920	120 605
	925 630	**729 151**

Remuneration as refected for 2013 is for a period of 5 months due to being discharged in November 2012. Director of Electrical acted for 7 months from December 2012 to June 2013 and received total remuneration of R206 223.

Remuneration of Director: Corporate services: Mndebele SF

Annual Remuneration	576 601	536 719
Allowances	91 605	91 605
Contributions to UIF, Medical and Pension Funds	133 808	165 847

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

26. Employee related costs (continued)

	802 014	**794 171**

Remuneration of Director: Public safety: Makgopa KB

Annual Remuneration	570 327	177 950
Allowances	52 728	17 576
Contributions to UIF, Medical and Pension Funds	165 708	51 275
	788 763	**246 801**

Remuneration of Director: Community services: Mkhwanazi ZF

Annual Remuneration	614 940	284 632
Allowances	117 600	29 300
Contributions to UIF, Medical and Pension Funds	56 606	40 353
	789 146	**354 285**

Remuneration of Director: Planning and economic development: Lukhele TA

Annual Remuneration	657 979	286 650
Allowances	60 000	37 264
Contributions to UIF, Medical and Pension Funds	71 226	48 704
	789 205	**372 618**

27. Remuneration of councillors

Executive mayor	671 112	636 961
Speaker	540 966	512 551
Chief whip	508 319	501 964
Mayoral committee members	1 525 269	1 465 782
Councillors	9 357 243	8 284 351
	12 602 909	**11 401 609**

In-kind benefits

The Executive mayor is provided with a vehicle, driver, secretary and personal assistant at the cost of the Council.

The Chief whip is provided with a personal assistant

The Speaker is provided with secretarial support and a personal assistant

All the full time Mayoral committee members are provided with one secretary.

Members of municipal councils should be remunerated within the upper limits as determined by the Department of Cooperative Governance and Traditional Affairs. Any deviations are disclosed as irregular expenditure.

Remuneration of Councillors:
The remuneratrion of the political office bearers and councillors are not within the upper limits as determined by the frameword envisaged section 219 of the Constitution.

Executive Mayor	**Remuneratic n**	**Travel Allowance**	**Cellphone Allowance**	**Pension and Medical Aid**	**SDL**	**Total**
Shiba BP	405 293	161 387	19 872	78 861	5 699	671 112
Total	405 293	161 387	19 872	78 861	5 699	671 112

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

27. Remuneration of councillors (continued)

Speaker	Remuneration	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Nkosi SM	320 758	129 110	19 872	66 820	4 406	540 966
Total	320 758	129 110	19 872	66 820	4 406	540 966

Chief Whip	Remuneration	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Nkosi DP	309 866	121 040	19 872	53 255	4 286	508 319
Total	309 866	121 040	19 872	53 255	4 286	508 319

Mayoral Committee	Remuneration	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Mngomezulu MW	295 782	121 040	19 872	67 339	4 405	508 438
Mnisi NM	304 613	121 040	19 872	58 508	4 383	508 416
Makhubela NV	305 858	121 040	19 872	57 262	4 383	508 415
	906 253	**363 120**	**59 616**	**183 109**	**13 171**	**1 525 269**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

27. Remuneration of councillors (continued)

Councillors	Remuneration	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Cindi NR	135 776	48 416	12 396	9 473	2 072	208 133
Dludlu ZM	126 797	48 416	12 396	18 451	1 936	207 996
Lubede EJ	126 797	48 416	12 396	18 451	1 934	207 994
Maduna ME	113 690	48 416	12 396	31 557	1 966	208 025
Makene J	161 360	56 418	12 396	7 893	2 401	240 468
Makhubela NV	126 797	48 416	12 396	18 451	1 938	207 998
Malaza STQ	126 797	48 416	12 396	18 451	1 938	207 998
Masuku BM	126 797	48 416	12 396	18 451	1 938	207 998
Mathunjwa KC	94 175	36 312	9 297	13 715	1 506	155 005
Mbhele JS	126 797	48 416	12 396	18 451	1 938	207 998
McGinn HJ	126 797	48 416	12 396	18 451	1 938	207 998
Mdhluli NI	115 663	48 416	12 396	29 585	1 963	208 023
Mdluli SL	115 226	44 382	11 363	16 872	1 787	189 630
Mhlanga PP	126 797	48 416	12 396	18 451	1 938	207 998
Mkhabela EB	126 797	48 416	12 396	18 451	1 938	207 998
Mnisi N	126 797	48 416	12 396	18 451	1 938	207 998
Motha JT	126 797	48 416	12 396	18 451	1 938	207 998
Motha TW	126 797	48 416	12 396	18 451	1 938	207 998
Mthombeni SF	137 354	48 416	12 396	7 893	2 098	208 157
Ngubeni A	137 354	48 416	12 396	7 893	2 098	208 157
Nkabinde NJ	110 616	48 416	12 396	34 632	1 975	208 035
Nkosi AD	150 355	56 418	12 396	18 899	2 235	240 303
Nkosi FE	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi GJ	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi JS	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi MH	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi MJ	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi NM	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi SJ	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi SZ	150 355	56 418	12 396	18 899	2 235	240 303
Nkosi VL	132 634	56 418	12 396	36 619	2 276	240 343
Ntuli FJ	138 933	48 416	12 396	6 315	2 120	208 180
Phakathi FDM	137 354	48 416	12 396	7 893	2 094	208 153
Shabangu VS	281 205	113 850	19 872	60 336	4 144	479 407
Sikhakhane NB	126 797	48 416	12 396	18 451	1 936	207 996
Simelani JD	137 354	48 416	12 396	7 893	2 094	208 153
Soko JP	150 355	56 418	12 396	18 899	2 233	240 301
Steenkamp ML	126 797	48 416	12 396	18 451	1 936	207 996
Thomo NG	150 355	56 418	12 396	18 899	2 235	240 303
Vilakazi J	126 797	48 416	12 396	18 451	1 938	207 998
Vilakazi RG	138 933	48 416	12 396	6 315	2 120	208 180
Vilakazi VV	113 690	48 416	12 396	31 557	1 969	208 028
Zwane TE	126 797	48 416	12 396	19 843	1 937	209 389
Zulu TW	10 525	4 034	1 033	1 578	287	17 457
	5 729 593	**2 183 230**	**537 405**	**819 380**	**88 471**	**9 358 079**

28. Capital expenditure

	2013	2012
VIP toilets in CALM 04/2012	8 469 030	-
VIP toilets SILOBELA 27/2012	1 077 101	-
	9 546 131	**-**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

29. Debt impairment

Allowance for impairment	38 034 052	29 263 288
Bad debts written off	-	1 526 397
	38 034 052	**30 789 685**

30. Repairs and maintenance

Infrustructure assets	12 501 544	23 168 995
Computers	619 178	315 865
Office , furniture, equipment and tools	506 837	337 959
Other	52 079	-
	13 679 638	**23 822 819**

31. Interest received

Interest - consumers	5 555 175	26 109 719

32. Investment revenue

Dividend revenue		
Unlisted investments designated at fair value	6 884	-
Interest revenue		
Unlisted Investments designated at fair value	1 758 010	2 641 570

33. Impairment

Non-current assets held for sale	230 300	-

34. Fair value adjustments

Non-current assets held for sale	342 000	1 141 400
Other financial assets		
• Other financial assets (Designated as at FV throught profit and loss)	84 380	108 452
	426 380	**1 249 852**

35. Depreciation

Land and buildings	(3 551 712)	92 020 213
Finance lease assets	328 681	166 494
	(3 223 031)	**92 186 707**

36. Finance costs

Non-current borrowings	282 595	-
Provisions	282 595	-
Trade and other payables	220 317	176 623
Finance leases	375 520	79 678
	1 161 027	**256 301**

37. Auditors' remuneration

Fees	3 411 659	2 416 538

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

38. Rental of facilities and equipment

Facilities	424 276	439 865

39. Licenses and permits

Licences: Business applications	17 692	3 241
Licences: Trafic	804 986	945 825
	822 678	**949 066**

40. Fines

Court fines	194 214	856 582

41. Donation received

Donations: ACIP	-	9 712 587

42. Contracted services

Information technology services	8 842 846	14 217 779
Fleet services	10 410 435	7 421 026
Water tank services	6 190 329	5 420 448
Standby contractors	1 204 592	1 167 221
Valuation costs	615 599	2 382 272
	27 263 801	**30 608 746**

43. Bulk purchases

Electricity	33 932 285	34 225 599
Water	8 218	13 563
	33 940 503	**34 239 162**

Electricity distribution losses are based on units purchased per invoices received from Eskom and units sold per prepaid reports and debtors system. It was determind to be at 22% (2012: 2,295%) for the financial year ending 30 June 2013.

Water distribution losses are estimated per scheme for the financial year ended 2013. Carolina and Badplaas are approximately 5-10% due to leakages as the plants are closely monitored. For the rest of the plants listed below the losses ranges between 20-30%

- Eestehoek
- Ekulindeni
- Empuluzi
- Methula
- Lusushwana

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

44. Cash generated from operations

Surplus (deficit)	40 608 683	(43 095 848)
Adjustments for:		
Depreciation and amortisation	(2 752 040)	92 657 697
Fair value adjustment	(426 380)	(1 249 852)
Finance costs - Finance leases	375 520	79 678
Impairment deficit	647 042	4 473 089
Debt impairment	38 034 052	30 789 685
Movements in operating lease asset and accruals	9 783	(1 878)
Movements in employee benefit obligations	381 832	25 561
Movements in provisions	3 608 354	1 283 370
Other non-cash items	(58 243 280)	(17 455 976)
Changes in working capital:		
Inventories	(1 584 427)	211 452
Other receivables from non-exchange transactions	8 282	-
Consumer debtors	(54 776 270)	(34 728 687)
Payables from exchange transactions	40 049 888	27 869 798
VAT	(1 409 431)	18 575 413
Unspent conditional grants and receipts	(2 732 742)	(20 294 481)
Other liability 1	(663 907)	1 804 528
	1 134 959	**60 943 549**

45. Commitments

Approved and contracted

Already contracted for but not provided for

• Capital	124 995 333	81 798 462

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

46. Contingent liabilities

Litigations in the process against the Municipality relating to civil claims include the following:	Potential liability
Grand Valley Estates (Pty) Ltd	26 680 000
JM Mathebula	50 000
Morekuri Trading JV Nadumi Trading and Projects	231 307
LC van Aswegen	42 100
Estate Late Finyathela Louis Nkuna	30 000
L Nkosi	55 000
Lebea and Maduna Consulting Engineering	1 500 000
Bigen Africa	4 300 000
De Kaap	25 000
Sifiso	150 000
	33 063 407

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

46. (continued)

Litigation in the process against the Municipality relating to civil claims including the following:

Grand Valley Estates (Pty) Ltd:
As a Municipality, being the organ of state, non-assistance was provided to the plaintiffs in terms of a business opportunity in the form of operating a game reserve and non-assistance in terms of nature conservation protection. There are 25 defendants of which Albert Luthuli is the 8th defendant. The defendants are jointly and severally liable. The probability of the claim being successful is less than 50%. The total potential liability is estimated at R26 680 000.00 for the municipality only.

JM Mathebula:
The plaintiff's electricity was cut-off due to non-payment and resulted in the plaintiff tampering with the connection to get access to electricity for health reasons. The probability of the claim being successful is less than 50%. The potential liability estimated at R50 000.

Mr Magagula:
As a result of electricity failure, Mr Magagula incurred damages to his property. The probability of the claim being successful is more than 50%. The potential liability is estimated at R13 648. No attorneys were appointed due to the insignificance of the amount.

Morekuri Trading JV Nadumi Trading and Projects:
The municipality terminated the contract due to poor performance. The plaintiff disagrees. The probability of the claim being successful is less than 50%. The potential liability is estimated at R231 307.On the 9th of July 2013 judgment was granted against the defendant to pay R231 307 plus interest of 15.5% from the date of the summons to the date of the final payment

LC Van Aswegen:
The plaintiff's electricity was cut-off due to non-payment of the bill. The plaintiff is claiming loss of revenue. The probability of the claim being successful is less than 50%. The potential liability is estimated at R42 100.

Estate Late Finyathela Louis Nkuna:
A transformer was installed on the plaintiff's site. As a result of this the plaintiff could not build on this site and was promised another site by Albert Luthuli. The probability of the claim being successful is more than 50%. The potential liability is estimated at R30 000.

Mr L Nkosi:
The plaintiff's motor vehicle was damaged due to potholes. The plaintiff fixed the pothole himself due to a potential loss in revenue, had the pothole stayed unfixed. The probability of the claim being successful is 50%. The potential liability is estimated at R55 000.

Lebea and Maduna Consulting Engineering:
A contractor was appointed to perform consulting work on the water project. Proposals made by the consultant to the Department of Water Affairs were not passed and hence the project was terminated. The probability of the claim being successful is less than 50%. The potential liability is estimated at R1 115 433.

Bigen Africa:
Debt Collection

In this matter the service provider was appointed to assist with the revenue collection. It is alleged that at the briefing session they were told that a successful bidder will be the only service provider. Hence when they were told that they will be working with other two service providers they felt that the Municipality is moving away from the initial scope of contract.

An assessment was made that the number of our debtors is very high and one service provider cannot manage to make an impact in a short space of time. Hence it was decided that there should be three service providers in this kind of work.
We have consulted with our attorneys and decided to furnish the Applicant with the required information so in line with the right to access to information.
On the 15th of May 2013 judgement was obtained in their favour, however it was only academic since we had already prepared and submitted the information that was requested.
The potential liability is estimated at R 4 300 000.00
The plaintiff's electricity was cut-off due to non-payment and resulted in the plaintiff tampering with the connection to get access to electricity for health reasons. The probability of the claim being successful is less than 50%. The potential liability estimated at R50 000.

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46. (continued)

Mr Magagula:
As a result of electricity failure, Mr Magagula incurred damages to his property. The probability of the claim bring successful is more than 50%. The potential liability is estimated at R13 648. No attorneys were appointed as the amount is small insurance will pay

Morekuri Trading JV Nadumi Trading and Projects:
The municipality terminated the contract due to poor performance. The plaintiff disagrees. The probability of the claim being successful is less than 50%. The potential liability is estimated at R231 307.On the 9th of July 2013 Judgment was granted against the defendant to pay 231 307 plus interest of 15.5% from the date of the summons to the date of the final payment

LC Van Aswegen:
The plaintiff's electricity was cut-off due to non-payment of the bill. The plaintiff is claiming loss of revenue. The probability of the claim being successful is less than 50%. The potential liability is estimated at R42 100.

Estate Late Finyathela Louis Nkuna:
A transformer was installed on the plaintiff's site. As a result of this the plaintiff could not build on this site and was promised another site by Albert Luthuli. The probability of the claim being successful is more than 50%. The potential liability is estimated at R30 000.

Mr L Nkosi:
The plaintiff's motor vehicle was damaged due to potholes. The plaintiff fixed the pothole himself due to a potential loss in revenue, had the pothole stayed unfixed. The probability of the claim being successful is 50%. The potential liability is estimated at R55 000.

Lebea and Maduna Consulting Engineering:
A contractor was appointed to perform consulting work on the water project. Proposals made by the consultant to the Department of Water Affairs were not passed and hence the project was terminated. The probability of the claim being successful is less than 50%. The potential liability is estimated at R1 500 000.

Bigen Africa
Debt Collection:

In this matter the service provider was appointed to assist with the revenue collection. It is alleged that at the briefing session they were told that a successful bidder will be the only service provider. Hence when they were told that they will be working with other two service providers they felt that the Municipality is moving away from the initial scope of contract.

An assessment was made that the number of debtors is very high and one service provider cannot manage to make an impact in such a short space of time. Hence it was decided that there should be three service providers in this kind of work. We have consulted with our attorneys and decided to furnish the Applicant with the required information so in line with the right to access to information.

On the 15th of May 2013 judgement was obtained in their favour, however it was only academic since we had already prepared and submitted the information that was requested.
The potential liability is estimated at R 4 300 000.00

De Kaap:
A summon was received from De Kaap Electrical CC claiming an amount of R 25 000 being the amount outstanding to them after their claim was partially paid.

Consultation with technical services is still being conducted order to determine if it is worth it to defend or not.

The potential liability is estimated at R 25000

Sifiso
A vehicle driven by an employee of the Municipality collided with the vehicle of a private person. The private person has served the Municipality with a notice in terms of section 3 of the Institution of Legal Proceedings Against the State Act 40 of 2002.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

46. (continued)
The amount claimed by the private person is R 150 000.

Therefore potential liability is estimated at R 150 000.

47. Related parties

No transactions were entered into with related parties to the municipality and close family members during the year.

48. Prior period errors

The correction of the errors / change in accounting policies resulted in adjustments as follows:

49. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality's approach to managing is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality has not defaulted on ecternal loans, payables and lease commitment payments being either interest or capital and no re-negotiation of terms were made on any of these instruments.

50. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

51. Events after the reporting date

The accounting officer is not aware of any matter or event arising since the end of the reporting period and the date of this report, which will significantly affect the financial position and results of the municipality's operations.

52. Unauthorised expenditure

Overpayment of the political office bearers and councillors	830 104	-

The remuneration of the political office bearers and councillors are not within the upper limits as determined by the framewrod envisaged in section 219 of the Constitution.

No disciplinary steps were taken as a consequence of above expenditure.

53. Fruitless and wasteful expenditure

Eskom - interest	170 173	39 434
SARS - interest and penalties	-	19 923
Suppliers - interest	1 554	614 798
Auditor General - interest	48 590	-
	220 317	**674 155**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

53. Fruitless and wasteful expenditure (continued)

The fruitless and wasteful expenditure relates to interest on Eskom, Telkom and Auditor General overdue accounts.

54. Irregular expenditure

Opening balance	63 789 505	7 911 870
Add: Irregular Expenditure - current year	4 884 223	55 874 635
	68 673 728	**63 786 505**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Advert not placed for at least ten days	None	-

55. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

Opening balance	778 456	824 006
Current year subscription / fee	11 147 066	10 338 115
Amount paid - current year	(10 228 835)	(9 559 659)
Amount paid - previous years	(778 456)	(824 006)
	918 231	**778 456**

The balance represents PAYE and UIF deducted from the June 2013 payroll. These amounts were paid throughout the year.

Audit fees

Opening balance	184 336	13 696
Current year subscription / fee	3 411 659	2 755 071
Amount paid - current year	(788 720)	(2 570 735)
Amount paid - previous years	-	(13 696)
	2 807 275	**184 336**

Contributions to SALGA

Opening balance	155 662	378 365
Current year subscription / fee	160 755	187 162
Amount paid - current year	(44 500)	(31 500)
Amount paid - previous years	(155 662)	(378 365)
	116 255	**155 662**

Pension and medical aid deductions

Opening balance	1 768 593	1 107 988
Current year subscription / fee	21 524 658	20 116 503
Amount paid - current year	(19 632 264)	(18 347 910)
Amount paid - previous years	(1 768 593)	(1 107 988)
	1 892 394	**1 768 593**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

55. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT payable	84 734	1 494 165

VAT output payables and VAT input receivables are shown in note 20.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June:

30 June 2013	Outstanding less than 90 days	Outstanding more than 90 days	Total
Vilakazi J	-	2 916	2 916

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cindi NR	-	3 854	3 854
Mhlangu PP	-	2 904	2 904
Ngubeni A	-	2 334	2 334
Nkosi MH	-	2 588	2 588
Nkosi MJ	-	4 298	4 298
Nkosi NM	-	3 854	3 854
Ntuli FJ	-	654	654
Vilakazi J	-	2 836	2 836
Vilakazi J	-	2 916	2 916
	-	**26 238**	**26 238**

Notes to the Annual Financial Statements

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55. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Deviations		
SKC Masakhizwe Engineers: Safety Evaluation of Brigde	29 000	-
Wolters Kluwer: Team mate for internal Audit	164 215	-
Teletronics Multichoice: Installation of DSTV at Fire Station	3 400	-
TSJ Trading: Supply and Installation of Tripping forward	97 720	-
Mandlakazi Electrical: Cape fault finding	22 884	-
Turner Morris: Concrete 52 W Puch type	26 190	-
TSJ: Battery Trapping Unit	29 000	-
High Pressure System: Driving Training Course	17 556	-
Mandlakazi Electrical: Cable fault finding at Eerstehoek WTW	22 525	-
Mandlakazi Electrical: Cable fault finding at Silobela	22 884	-
Mindnizik Media: Learners Licence Material	6 192	-
Mailmech Electronics: LJ 40 Franking Machine	30 951	-
Trio Hydraulics: Repairs for FNN 257 MP	3 650	-
TSJ Trading Projects: Model self containers BTU	405 000	-
C Struges: Installation of transformer at Nkanini	5 130	-
C Struges: Installation of transformer at Crossroad	5 700	-
Mandlakazi: Cable fault finding and repair at Silobela	46 578	-
Mugovhe: Electrification of RDP houses (NCOP)	28 000	-
Goscor Access Equipment: Refurbishment of Cherry Picker	86 676	-
C Sturges: Installation of transformer	5 700	-
Moru Bathong Investment: Competency Assessment	27 596	-
Basadzi Personnel: Advert for Insurance & Database	16 735	-
	1 103 282	**-**

Figures in Rand	2013	2012

56. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

1. Service charges
Faulty meters and tempering. Meter inspectors were appointed to do suprise visits.

2. **Interest received - consumers**
Municipality had outstanding accounts of R28milj, interest on long outstanding accounts.

3. Licenses and permits
Failty Bricl roll testing machine that was replaced late in the financial year.

4. Interest earned - External investments
Increase in investment from other financial institutions.

5. Property rates
Implementation of new valuation roll.

6. Transfers recognised - operating
Equitable share and high spending of conditional grants that resulted to increase in revenue.

7. Fines
Income only recognised when summons issued by Court of law and actual payment received.

8. Personnel
Overtime on payment NCOP and visits by other spheres of government. Provision for accumulated leave, long service awards.

9. Remuneration of councillors
Provision for remuneration of councillor allowances.

10. Depreciation and asset impairment
Increase in capital investments

11. Debt impairment
More provision for bad debt.

12. Bulk purchases
Other costs were budget under general expenses, eg. own municipal consumption. One vote was used for the purchases on electricity.

13. Contracted services
Provision of water by water tunkers and old infrastructure that needs repairs.

14. Other expenditure
It conclude repairs and maintenance per the requirement from Treasury.

57. Other income

Sundry income	534 147	1 109 472
Tender deposit	223 580	238 585
Connection services	212 713	283 545
Building plan fees	162 167	81 610
Tampering of meters	115 632	41 542
	1 248 239	**1 754 754**

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure				
	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun
DOPW	63 000	7 000	16 000	-	-	12 143	94 832	45 006	51 981	-
National Treasury	65 000	47 000	24 000	-	-	-	-	-	-	-
National Treasury	50 000	-	-	-	-	-	-	-	-	-
DOE	00 000	20 000	80 000	-	-	-	-	-	-	-
DoHS	01 000	44 000	91 006	-	-	-	-	-	-	-
	60 000	32 725	-	-	-	-	-	-	-	-
	39 000	50 725	11 006	-	-	12 143	94 832	45 006	51 981	-

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.